

CITY OF VASSAR

Tuscola County, Michigan

FINANCIAL STATEMENTS

June 30, 2008

CITY OF VASSAR

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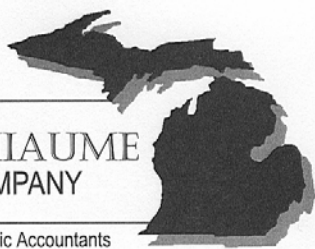
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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
City of Vassar, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Vassar as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Vassar's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component units, and each major fund of the City of Vassar as of June 30, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2008 on our consideration of the City of Vassar's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, schedule of pension plan funding progress and budgetary comparison schedule are not required parts of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Vassar's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Berthiaume & Co.

Saginaw, Michigan
October 29, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Vassar (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and the notes to the financial statements.

Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$10,623,629 (net assets). Of this amount, \$1,635,708 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and others.

During the fiscal year, the City's total net assets increased by \$21,435. Governmental activities increased by \$111,404, while business-type activities decreased by \$89,969.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,424,132, an increase of \$201,900 in comparison with prior year. Approximately 11 percent of this total or \$151,730 is reserved for various purposes. Of the remaining unreserved fund balance, \$37,589 is designated for special purposes, leaving an unreserved, undesignated fund balance of \$1,234,813.

At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$452,339, or approximately twenty-six (26) percent of the General Fund's annual expenditures (including transfers).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplemental information and other supplemental information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

The government-wide financial statements can be found on pages 12 through 13 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state or local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus on governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains fourteen (14) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other thirteen (13) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual budget for each of its governmental funds. A budgetary comparison statement has been provided for the General Fund, the City's only major fund, to demonstrate compliance with that budget.

Proprietary Funds – The City maintains two different types of proprietary funds. Enterprise Funds are used to report the same functions as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for sewage collection, water distribution, and stormwater management. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses Internal Service Funds to account for insurance claims.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer and Water Funds, which are considered to be major funds of the City. The nonmajor Enterprise Fund and Internal Service Fund is presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 18 through 22 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiduciary Funds – Fiduciary funds are used to account for the resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the City.

The combining statements referred to earlier in connection with the nonmajor governmental funds are presented immediately following the required supplemental information.

Government-wide Financial Analysis

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For all activities of the City, assets exceeded liabilities by \$10,623,629 at the close of the most recent fiscal year. Most of this amount (77 percent) reflects the investment in capital assets (e.g., land, buildings, vehicles, equipment, and infrastructure) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to its citizens; thus, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (8 percent) represents resources that are subject to external restrictions on how they are to be used. The remaining balance of unrestricted net assets (15 percent) may be used to meet the government's ongoing obligations to citizens and others.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Vassar's Net Assets

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Assets:						
Other assets	\$ 1,637,560	\$ 1,430,338	\$ 1,674,074	\$ 1,878,029	\$ 3,311,634	\$ 3,308,367
Capital assets	3,041,182	3,204,563	6,543,422	6,607,431	9,584,604	9,811,994
Total assets	4,678,742	4,634,901	8,217,496	8,485,460	12,896,238	13,120,361
Liabilities:						
Other liabilities	172,282	81,378	196,988	36,739	369,270	118,117
Long-term liabilities	772,249	930,716	1,131,090	1,469,334	1,903,339	2,400,050
Total liabilities	944,531	1,012,094	1,328,078	1,506,073	2,272,609	2,518,167
Net assets:						
Invested in capital assets, net of related debt	2,864,071	2,978,111	5,273,422	5,167,431	8,137,493	8,145,542
Restricted	638,533	571,650	211,895	212,282	850,428	783,932
Unrestricted	231,607	73,046	1,404,101	1,599,674	1,635,708	1,672,720
Total net assets	\$ 3,734,211	\$ 3,622,807	\$ 6,889,418	\$ 6,979,387	\$ 10,623,629	\$ 10,602,194

Statement of Activities

During the current fiscal year, the government's total net assets increased by \$21,435. Governmental activities increased by \$111,404, while business-type activities decreased by \$89,969.

Governmental Activities

The net assets increased for governmental activities in the current fiscal year mainly due to spending cuts implemented in the current fiscal year.

Business-type Activities

The City's Water Fund has remained stable over the past year in spite of revenue reductions that are related to changes in the manufacturing sector's water usage. The depreciation of assets is a major factor in the net loss that the Sewer Fund has experienced over the years.

CITY OF VASSAR

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Vassar's Changes in Net Assets

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Revenues:						
Program revenues						
Charges for services	\$ 366,585	\$ 371,188	\$ 1,048,156	\$ 1,017,122	\$ 1,414,741	\$ 1,388,310
Operating grants	292,552	263,814	179	221	292,731	264,035
General revenues						
Property taxes	997,512	987,405	-	-	997,512	987,405
Franchise fees	8,214	7,822	-	-	8,214	7,822
State revenue sharing	359,914	359,914	-	-	359,914	359,914
Investment earnings	63,204	72,075	65,350	84,150	128,554	156,225
Miscellaneous	26,042	14,257	-	-	26,042	14,257
Total revenues	<u>2,114,023</u>	<u>2,076,475</u>	<u>1,113,685</u>	<u>1,101,493</u>	<u>3,227,708</u>	<u>3,177,968</u>
Program Expenses:						
General government	655,397	577,155	-	-	655,397	577,155
Public safety	590,672	641,375	-	-	590,672	641,375
Public works	506,810	1,464,079	-	-	506,810	1,464,079
Health and welfare	22,584	22,584	-	-	22,584	22,584
Community and economic development	4,817	28,562	-	-	4,817	28,562
Recreation and culture	191,418	242,611	-	-	191,418	242,611
Interest on long-term debt	41,351	42,545	-	-	41,351	42,545
Sewer	-	-	777,113	757,394	777,113	757,394
Water	-	-	409,243	366,769	409,243	366,769
Stormwater Management	-	-	17,298	27,959	17,298	27,959
Total program expenses	<u>2,013,049</u>	<u>3,018,911</u>	<u>1,203,654</u>	<u>1,152,122</u>	<u>3,216,703</u>	<u>4,171,033</u>
Increase in net assets before other items	<u>100,974</u>	<u>(942,436)</u>	<u>(89,969)</u>	<u>(50,629)</u>	<u>11,005</u>	<u>(993,065)</u>
Other items:						
Contributions to principal	2,600	900	-	-	2,600	900
Sale of capital assets - gains	7,830	9,215	-	4,770	7,830	13,985
Transfers	-	(12,077)	-	12,077	-	-
Total other items	<u>10,430</u>	<u>(1,962)</u>	<u>-</u>	<u>16,847</u>	<u>10,430</u>	<u>14,885</u>
Change in net assets	<u>111,404</u>	<u>(944,398)</u>	<u>(89,969)</u>	<u>(33,782)</u>	<u>21,435</u>	<u>(978,180)</u>
Net assets, beginning	<u>3,622,807</u>	<u>4,567,205</u>	<u>6,979,387</u>	<u>7,013,169</u>	<u>10,602,194</u>	<u>11,580,374</u>
Net assets, ending	<u>\$ 3,734,211</u>	<u>\$ 3,622,807</u>	<u>\$ 6,889,418</u>	<u>\$ 6,979,387</u>	<u>\$10,623,629</u>	<u>\$10,602,194</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

City Funds Financial Analysis

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities. The City's major governmental fund is the General Fund. Additionally, the City reports the Sewer and Water funds as major proprietary funds.

The General Fund accounts for functions relating to the general government activities of the City, which are financed by property tax levies, distribution of State revenues, and fees charged for various municipal activities and services. This fund had an increased fund balance of \$85,657.

The Sewer Fund covers the operations of the City's sewage treatment plant and the maintenance and construction of the sewer distribution system.

The Water Fund finances the operations of the water treatment plant and the entire transmission and distribution system.

General Fund Budgetary Highlights

Over the course of the year, the City Council and City management monitor and amend the budget to account for unanticipated events during the year.

There were not major changes to the originally adopted budget for the current fiscal year. Quarterly budget amendments were adopted through the end of the year to reflect the changes in our financial position.

Once again, several factors impacted the General Fund in this fiscal year. The significant items include the following:

- **Total Revenue:** The City experienced a decrease of \$36,777, which equals a 1.98% reduction in total revenue in fiscal year 2008 from the originally adopted budget.
- **Total Expenditures:** Total expenditures decreased a total of 6.17% from the original budgeted total.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Administration

Capital Assets – The City's investment in capital assets for governmental and business-type activities as of June 30, 2008 amounts to \$9,584,604 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, vehicles, furniture and equipment, systems, streets, and sidewalks. Governmental activities included additions of \$24,145 in buildings and improvements, equipment and infrastructure. Business-type activities included additions of \$234,427 in various equipment and system additions.

Debt – At the end of the current fiscal year, the City had total debt (excluding compensated absences) outstanding of \$2,065,255. Of this amount, \$795,255 comprises debt backed by the full faith and credit of the government. The remaining of the City's debt (\$1,270,000) is backed solely by specified revenue sources. Neither the governmental activities nor the business-type activities incurred any new debt during the current fiscal year.

Economic Factors

The City of Vassar's economic future is currently dependent upon many factors that are beyond the control of the City Council and City management. The downturn in the automotive industry combined with the restructuring of that industry not only affected our current revenue stream but will also have a significant impact on the City's financial future. This year the outlook for the automotive industry is even more dim, with talks of bankruptcy and/or mergers.

The State of Michigan's economy continued to decline in this fiscal year. The local economy reflects this trend and ultimately affects our long-term financial outlook. While some industries, such as, renewable energy sources are beginning to grow, others, financial and manufacturing industries, are struggling to survive. One of our major employers, Means Industries, closed its doors in the spring of 2008. This will certainly have a huge impact on the City.

Interest rates have held steady throughout this fiscal year, which improved our interest earnings over fiscal year 2007.

These uncertain times in our economy create the need for the City to utilize strategic planning methods in the years ahead. In spite of the cost saving measures implemented, rising costs for fuel, electricity, supplies, and personnel continued to impact our overall budget. All City funds are impacted by these increased costs. The City administration and Council will continue to look for ways to reduce costs wherever possible.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact Vassar City Hall, 287 E. Huron Avenue, Vassar, MI 48768.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

June 30, 2008

	<i>Primary Government</i>			
	<i>Governmental</i>	<i>Business-type</i>		<i>Component</i>
	<i>Activities</i>	<i>Activities</i>	<i>Total</i>	<i>Units</i>
Assets:				
Cash and cash equivalents	\$ 1,318,608	\$ 1,274,040	\$ 2,592,648	\$ 136,117
Receivables	289,740	130,206	419,946	100,192
Internal balances	(3,109)	3,109	-	-
Inventory	5,436	-	5,436	-
Prepaid expenses	26,885	6,290	33,175	-
Restricted cash and cash equivalents	-	211,895	211,895	-
Capital assets:				
Nondepreciable capital assets	526,669	43,009	569,678	52,663
Depreciable capital assets, net	2,514,513	6,500,413	9,014,926	-
Other assets	-	48,534	48,534	-
Total assets	<u>4,678,742</u>	<u>8,217,496</u>	<u>12,896,238</u>	<u>288,972</u>
Liabilities:				
Accounts payable and accrued expenses	103,404	26,988	130,392	11,545
Long-term liabilities:				
Due within one year	68,878	170,000	238,878	-
Due in more than one year	<u>772,249</u>	<u>1,131,090</u>	<u>1,903,339</u>	<u>-</u>
Total liabilities	<u>944,531</u>	<u>1,328,078</u>	<u>2,272,609</u>	<u>11,545</u>
Net assets:				
Invested in capital assets, net of related debt	2,864,071	5,273,422	8,137,493	52,663
Restricted for:				
Debt service	-	193,262	193,262	-
Asset replacement	-	18,633	18,633	-
Streets	519,124	-	519,124	-
Nonexpendable cemetery principal	119,409	-	119,409	-
Unrestricted	<u>231,607</u>	<u>1,404,101</u>	<u>1,635,708</u>	<u>224,764</u>
Total net assets	<u>\$ 3,734,211</u>	<u>\$ 6,889,418</u>	<u>\$ 10,623,629</u>	<u>\$ 277,427</u>

The accompanying notes are an integral part of these financial statements.

CITY OF VASSAR

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

		<i>Program Revenues</i>			<i>Net (Expense) Revenue</i>
		<i>Charges for Services</i>	<i>Operating Grants and Contributions</i>	<i>Capital Grants and Contributions</i>	
	<u><i>Expenses</i></u>				
Functions/Programs					
PRIMARY GOVERNMENT:					
<i>Governmental activities:</i>					
General government	\$ 655,397	\$ 112,352	\$ 15,352	\$ -	\$ (527,693)
Public safety	590,672	66,643	9,659	-	(514,370)
Public works	506,810	145,819	259,360	-	(101,631)
Health and welfare	22,584	22,785	-	-	201
Community and economic development	4,817	-	131	-	(4,686)
Recreation and culture	191,418	18,986	8,050	-	(164,382)
Interest on long-term debt	41,351	-	-	-	(41,351)
Total governmental activities	<u>2,013,049</u>	<u>366,585</u>	<u>292,552</u>	<u>-</u>	<u>(1,353,912)</u>
<i>Business-type activities:</i>					
Sewer	777,113	568,990	63	-	(208,060)
Water	409,243	428,319	116	-	19,192
Stormwater Management	17,298	50,847	-	-	33,549
Total business-type activities	<u>1,203,654</u>	<u>1,048,156</u>	<u>179</u>	<u>-</u>	<u>(155,319)</u>
Total primary government	<u>\$3,216,703</u>	<u>\$ 1,414,741</u>	<u>\$ 292,731</u>	<u>\$ -</u>	<u>\$(1,509,231)</u>
COMPONENT UNITS:					
Economic development corporation	\$ 24,497	\$ -	\$ -	\$ -	\$ (24,497)
Downtown development authority	18,260	1,980	-	-	(16,280)
Total component units	<u>\$ 42,757</u>	<u>\$ 1,980</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (40,777)</u>

The accompanying notes are an integral part of these financial statements.

	<i>Primary Government</i>			
	<i>Governmental</i>	<i>Business-</i>		<i>Component</i>
	<i>Activities</i>	<i>type</i>	<i>Total</i>	<i>Units</i>
		<i>Activities</i>		
<i>Changes in net assets:</i>				
Net (Expense) Revenue	\$ (1,353,912)	\$ (155,319)	\$ (1,509,231)	\$ (40,777)
General revenues				
Taxes:				
Property taxes, levied for general purpose	917,369	-	917,369	-
Property taxes, County allocation for streets	75,717	-	75,717	-
Property taxes, captured by component units	-	-	-	85,898
Payment in lieu of property taxes	4,426	-	4,426	-
Franchise fees	8,214	-	8,214	-
Grants and contributions not restricted to specific programs	359,914	-	359,914	-
Unrestricted investment earnings	63,204	65,350	128,554	820
Miscellaneous	26,042	-	26,042	400
Contributions to principal of permanent fund	2,600	-	2,600	-
Special items - Gain on sale of capital asset	7,830	-	7,830	150
Total general revenues, contributions, and special items	1,465,316	65,350	1,530,666	87,268
Change in net assets	111,404	(89,969)	21,435	46,491
Net assets, beginning of year	3,622,807	6,979,387	10,602,194	230,936
Net assets, end of year	\$ 3,734,211	\$ 6,889,418	\$ 10,623,629	\$ 277,427

CITY OF VASSAR

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2008

	<i>General Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
Assets:			
Cash and cash equivalents	\$ 464,928	\$ 816,212	\$ 1,281,140
Taxes receivable	19,566	-	19,566
Accounts receivable	27,323	24,783	52,106
Special assessments receivable	-	3,203	3,203
Notes receivable	26,701	45,672	72,373
Accrued interest receivable	-	148	148
Due from other governmental units	75,155	67,189	142,344
Due from other funds	-	2,087	2,087
Inventory	5,436	-	5,436
Prepaid expenditures	20,004	6,881	26,885
Total assets	<u>\$ 639,113</u>	<u>\$ 966,175</u>	<u>\$ 1,605,288</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 41,676	\$ 6,749	\$ 48,425
Due to other governmental units	17,993	-	17,993
Due to other funds	3,409	1,787	5,196
Deposits payable	14,400	-	14,400
Deferred revenue	46,267	48,875	95,142
Total liabilities	<u>123,745</u>	<u>57,411</u>	<u>181,156</u>
Fund balances:			
Reserved for:			
Inventory	5,436	-	5,436
Prepaid expenditures	20,004	6,881	26,885
Nonexpendable cemetery principal	-	119,409	119,409
Unreserved:			
Designated, reported in:			
General fund	37,589	-	37,589
Undesignated, reported in:			
General fund	452,339	-	452,339
Special revenue funds	-	782,474	782,474
Total fund balances	<u>515,368</u>	<u>908,764</u>	<u>1,424,132</u>
Total liabilities and fund balances	<u>\$ 639,113</u>	<u>\$ 966,175</u>	<u>\$ 1,605,288</u>

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2008

Total fund balances for governmental funds \$ 1,424,132

Total net assets reported for governmental activities in the statement of
of net assets is different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Governmental capital assets	5,199,860	
Less accumulated depreciation	<u>(2,158,678)</u>	3,041,182

Accrued interest in the governmental activities is not payable from current
resources and therefore is not reported in the governmental funds. (22,586)

Deferred revenues reported in the governmental funds are recognized as
revenues for the governmental activities.

Delinquent personal property taxes	19,566	
Notes	72,373	
Special assessments	<u>3,203</u>	95,142

Long-term liabilities are not due and payable in the current year and therefore are
not reported in the governmental funds:

Long-term debt	(795,255)	
Compensated absences payable	<u>(45,872)</u>	(841,127)

The assets and liabilities of internal service funds are included in governmental
activities in the statement of net assets. 37,468

Net assets of governmental activities \$ 3,734,211

The accompanying notes are an integral part of these financial statements.

CITY OF VASSAR

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	<i>General Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
Revenues:			
Property taxes	\$ 919,307	\$ 75,717	\$ 995,024
Licenses and permits	11,094	-	11,094
Federal grants	-	3,131	3,131
State grants	362,631	259,343	621,974
Contributions from other units	5,166	75,747	80,913
Charges for services	205,992	40,281	246,273
Fines and forfeits	7,583	-	7,583
Interest and rents	205,162	37,106	242,268
Other revenue	107,500	43,334	150,834
Total revenues	<u>1,824,435</u>	<u>534,659</u>	<u>2,359,094</u>
Expenditures:			
Current			
General government	484,569	72,342	556,911
Public safety	509,155	104,928	614,083
Public works	251,037	366,159	617,196
Health and welfare	22,584	-	22,584
Community and economic development	4,817	-	4,817
Recreation and culture	-	166,208	166,208
Other	34,239	-	34,239
Capital outlay	20,322	7,329	27,651
Debt service			
Principal	76,682	7,000	83,682
Interest and fees	39,411	4,522	43,933
Total expenditures	<u>1,442,816</u>	<u>728,488</u>	<u>2,171,304</u>
Excess (deficiency) of revenues over expenditures	<u>381,619</u>	<u>(193,829)</u>	<u>187,790</u>
Other financing sources (uses):			
Insurance recoveries	14,110	-	14,110
Transfers from other funds	-	314,448	314,448
Transfers to other funds	(310,072)	(4,376)	(314,448)
Total other financing sources (uses)	<u>(295,962)</u>	<u>310,072</u>	<u>14,110</u>
Net change in fund balances	85,657	116,243	201,900
Fund balances, beginning of year	<u>429,711</u>	<u>792,521</u>	<u>1,222,232</u>
Fund balances, end of year	<u>\$ 515,368</u>	<u>\$ 908,764</u>	<u>\$ 1,424,132</u>

The accompanying notes are an integral part of these financial statements.

CITY OF VASSAR

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Net change in fund balances - total governmental funds \$ 201,900

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	24,145	
Less depreciation expense	<u>(187,526)</u>	(163,381)

Collection of certain items recorded as deferred revenue are considered current financial resources in the governmental funds. In the statement of activities, these items have been recorded as revenue.

Delinquent personal property taxes	2,488	
Notes	(22,909)	
Special assessments	<u>(283)</u>	(20,704)

Repayments of principal on long-term obligations are expenditures in governmental but the payments reduce long-term liabilities in the statement of net assets. 83,682

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences payable	5,907	
Change in accrued interest payable	<u>2,582</u>	8,489

The net revenue (expense) of the internal service fund is reported with governmental activities. 1,418

Change in net assets of governmental activities \$ 111,404

The accompanying notes are an integral part of these financial statements.

CITY OF VASSAR

PROPRIETARY FUNDS STATEMENT OF NET ASSETS

June 30, 2008

	<i>Business-type Activities</i>				<i>Governmental Activities</i>
	<i>Major Enterprise Funds</i>		<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Self Insurance Fund</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Stormwater Management Fund</i>		
Assets:					
<i>Current assets:</i>					
Cash and cash equivalents	\$ 223,870	\$ 1,000,228	\$ 49,942	\$ 1,274,040	\$ 37,468
Accounts receivable	62,297	28,857	5,256	96,410	-
Special assessments receivable	11,622	21,583	-	33,205	-
Accrued interest receivable	591	-	-	591	-
Due from other funds	76,088	2,021	-	78,109	-
Prepaid expenses	5,438	852	-	6,290	-
Total current assets	379,906	1,053,541	55,198	1,488,645	37,468
<i>Noncurrent assets:</i>					
Restricted cash and cash equivalents	126,909	84,986	-	211,895	-
Capital assets:					
Nondepreciable capital assets	33,422	9,587	-	43,009	-
Depreciable capital assets, net	4,975,848	1,499,150	25,415	6,500,413	-
Deferred financing costs	20,766	27,768	-	48,534	-
Total noncurrent assets	5,156,945	1,621,491	25,415	6,803,851	-
Total assets	5,536,851	2,675,032	80,613	8,292,496	37,468
Liabilities:					
<i>Current liabilities:</i>					
Accounts payable	6,996	3,395	399	10,790	-
Due to other funds	-	75,000	-	75,000	-
Accrued interest payable	9,135	7,063	-	16,198	-
Current portion of long-term debt	95,874	74,126	-	170,000	-
Total current liabilities	112,005	159,584	399	271,988	-
<i>Noncurrent liabilities:</i>					
Compensated absences payable	15,433	15,657	-	31,090	-
Long-term debt	620,360	479,640	-	1,100,000	-
Total noncurrent liabilities	635,793	495,297	-	1,131,090	-
Total liabilities	747,798	654,881	399	1,403,078	-

continued

The accompanying notes are an integral part of these financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS, CONTINUED

June 30, 2008

	<i>Business-type Activities</i>			<i>Governmental Activities</i>
	<i>Major Enterprise Funds</i>		<i>Nonmajor Enterprise Fund</i>	
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Stormwater Management Fund</i>	<i>Total Enterprise Funds</i>
				<i>Self Insurance Fund</i>
Net assets:				
Invested in capital assets, net of related debt	4,293,036	954,971	25,415	5,273,422
Restricted for:				
Debt service	108,276	84,986	-	193,262
Asset replacement	18,633	-	-	18,633
Unrestricted	369,108	980,194	54,799	1,404,101
Total net assets	<u>\$ 4,789,053</u>	<u>\$ 2,020,151</u>	<u>\$ 80,214</u>	<u>\$ 6,889,418</u>
				<u>\$ 37,468</u>

The accompanying notes are an integral part of these financial statements.

CITY OF VASSAR

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2008

	<i>Business-type Activities</i>			<i>Governmental Activities</i>
	<i>Major Enterprise Funds</i>		<i>Nonmajor Enterprise Fund</i>	
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Stormwater Management Fund</i>	<i>Total Enterprise Funds</i>
				<i>Self Insurance Fund</i>
Operating revenues:				
Charges for services	\$ 558,339	\$ 411,964	\$ 50,845	\$ 1,021,148
Penalties	-	12,290	-	12,290
Other	7,697	4,065	2	11,764
Total operating revenues	566,036	428,319	50,847	1,045,202
Operating expenses:				
Personnel	216,621	87,288	5,697	309,606
Fringe benefits	88,153	18,190	429	106,772
Supplies	28,924	31,913	1,135	61,972
Contracted services	15,811	2,592	-	18,403
Administrative expense	22,000	22,000	1,000	45,000
Communication	4,057	6,895	-	10,952
Fees and permits	1,950	1,654	-	3,604
Conference and travel	861	1,590	-	2,451
Insurance	7,110	2,287	-	9,397
Utilities	76,792	37,593	-	114,385
Repairs and maintenance	30,605	79,670	614	110,889
Equipment rental	5,315	19,129	2,756	27,200
Other services and supplies	5,394	5,749	1,320	12,463
Depreciation	230,805	62,164	1,393	294,362
Total operating expenses	734,398	378,714	14,344	1,127,456
Operating income (loss)	(168,362)	49,605	36,503	(82,254)
Non-operating revenues (expenses):				
Interest income	23,872	40,393	1,085	65,350
Special assessments interest	63	116	-	179
Loan repayments	2,954	-	(2,954)	-
Insurance recoveries	-	3,963	-	3,963
Interest and amortization expense	(42,715)	(34,492)	-	(77,207)
Net non-operating revenues	(15,826)	9,980	(1,869)	(7,715)

continued

The accompanying notes are an integral part of these financial statements.

PROPRIETARY FUNDS

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS, CONTINUED**

Year Ended June 30, 2008

	<i><u>Business-type Activities</u></i>			<i><u>Governmental Activities</u></i>
	<i><u>Major Enterprise Funds</u></i>		<i><u>Nonmajor Enterprise Fund</u></i>	
	<i><u>Sewer Fund</u></i>	<i><u>Water Fund</u></i>	<i><u>Stormwater Management Fund</u></i>	<i><u>Total Enterprise Funds</u></i>
				<i><u>Self Insurance Fund</u></i>
Net income (loss)	(184,188)	59,585	34,634	(89,969)
Net assets, beginning of year	<u>4,973,241</u>	<u>1,960,566</u>	<u>45,580</u>	<u>6,979,387</u>
Net assets, end of year	<u>\$ 4,789,053</u>	<u>\$ 2,020,151</u>	<u>\$ 80,214</u>	<u>\$ 6,889,418</u>

The accompanying notes are an integral part of these financial statements.

CITY OF VASSAR

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS

Year Ended June 30, 2008

	<i>Business-type Activities</i>				<i>Governmental Activities</i>
	<i>Major Enterprise Funds</i>		<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Self Insurance Fund</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Stormwater Management Fund</i>		
Cash flows from operating activities:					
Cash received from customers	\$ 558,662	\$ 444,184	\$ 50,717	\$ 1,053,563	\$ 497
Cash received from interfund services	(76,088)	72,979	-	(3,109)	-
Cash payments to employees	(215,154)	(86,999)	(5,697)	(307,850)	-
Cash payments to suppliers for goods and services	(288,985)	(234,585)	(6,855)	(530,425)	-
Net cash provided (used) by operating activities	(21,565)	195,579	38,165	212,179	497
Cash flows from capital and related financing activities:					
Special assessments interest	63	116	-	179	-
Loan repayments	2,954	-	(2,954)	-	-
Insurance recoveries	-	3,963	-	3,963	-
Acquisition of capital assets	(174,416)	(60,011)	-	(234,427)	-
Principal payments	(95,874)	(74,126)	-	(170,000)	-
Interest paid	(40,117)	(31,017)	-	(71,134)	-
Net cash used by capital and related financing activities	(307,390)	(161,075)	(2,954)	(471,419)	-
Cash flows from investing activities:					
Interest received	23,872	40,393	1,085	65,350	1,418
Net cash provided by investing activities	23,872	40,393	1,085	65,350	1,418
Net increase (decrease) in cash and cash equivalents	(305,083)	74,897	36,296	(193,890)	1,915
Cash and cash equivalents, beginning of year	655,862	1,010,317	13,646	1,679,825	35,553
Cash and cash equivalents, end of year	\$ 350,779	\$ 1,085,214	\$ 49,942	\$ 1,485,935	\$ 37,468

continued

The accompanying notes are an integral part of these financial statements.

CITY OF VASSAR

PROPRIETARY FUNDS **STATEMENT OF CASH FLOWS, CONTINUED**

Year Ended June 30, 2008

	<i>Business-type Activities</i>				<i>Governmental Activities</i>
	<i>Major Enterprise Funds</i>		<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Self Insurance Fund</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Stormwater Management Fund</i>		
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (168,362)	\$ 49,605	\$ 36,503	\$ (82,254)	\$ -
Adjustments:					
Depreciation	230,805	62,164	1,393	294,362	-
Loss on capital assets	4,074	-	-	4,074	-
Change in assets and liabilities:					
Accounts receivable	(7,808)	9,414	(130)	1,476	-
Special assessments receivable	1,025	1,905	-	2,930	-
Accrued interest receivable	(591)	4,546	-	3,955	497
Due from other funds	(76,088)	(2,021)	-	(78,109)	-
Prepaid expenses	(1,128)	(132)	-	(1,260)	-
Accounts payable	(3,832)	(4,320)	399	(7,753)	-
Due to other funds	-	75,000	-	75,000	-
Accrued interest payable	(1,127)	(871)	-	(1,998)	-
Compensated absences payable	1,467	289	-	1,756	-
Net cash provided (used) by operating activities	<u>\$ (21,565)</u>	<u>\$ 195,579</u>	<u>\$ 38,165</u>	<u>\$ 212,179</u>	<u>\$ 497</u>

The accompanying notes are an integral part of these financial statements.

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2008

	<i>Private Purpose Trust Funds</i>	<i>Agency Funds</i>	<i>Total</i>
Assets:			
Cash and cash equivalents	\$ 2,844	\$ 43,099	\$ 45,943
Total assets	2,844	43,099	45,943
Liabilities:			
Accounts payable	-	31,392	31,392
Due to other governmental units	-	11,707	11,707
Total liabilities	-	43,099	43,099
Net Assets:			
Held in trust	2,844	-	2,844
Total net assets	\$ 2,844	\$ -	\$ 2,844

The accompanying notes are an integral part of these financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET ASSETS
Year Ended June 30, 2008

	<i>Private Purpose Trust Funds</i>
Additions:	
Investment income	\$ 99
Net increase	99
Net assets held in trust, beginning of year	<u>2,745</u>
Net assets held in trust, end of year	<u>\$ 2,844</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Vassar was incorporated in 1945 and is located in Tuscola County, Michigan. The City is organized under Michigan's Comprehensive Home Rule City Act. City government is directed by a five member City Council elected by the community at large. The legislative body selects from among its members the Mayor and appoints a City Manager to administer the affairs of the City. The City provides the following services to approximately 2,800 residents as authorized by its charter: Public safety (police and fire), highways and streets, sanitation, health and social services, recreation and culture, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City of Vassar conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City and its component units. In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units discussed below are included in the City's reporting entity because of their operational or financial relationship with the City.

Discretely Presented Component Units - The component units column in the government-wide financial statements includes the financial data of the City's two component units. These units are reported in a separate column to emphasize that they are legally separate from the City. The component units are described as follows:

Economic Development Corporation - The members of the governing board of the Economic Development Corporation are appointed by the City Council.

Downtown Development Authority - The members of the governing board of the Downtown Development Authority are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The City’s net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the City’s functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The City does not allocate indirect costs. In creating the government-wide financial statements the City has eliminated interfund transactions.

The government-wide focus is on the sustainability of the City as an entity and the change in the City’s net assets resulting from current year activities.

Fund Financial Statements:

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Fiduciary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting as are the proprietary funds.

The City reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the City. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The City reports the following major enterprise funds:

Sewer Fund – The Sewer Fund is used to account for the revenues and expenses for the operation of a sewer system.

Water Fund – The Water Fund is used to account for the revenues and expenses for the operation of a water system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Assets, Liabilities, and Equity:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments, if any, are stated at fair value. For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools, if any, to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Restricted Assets – Certain resources set aside for repayment of bonds and to meet bond covenants, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Inventories and Prepaid Expenses – Inventories are valued at cost, on a first-in, first-out basis. Inventories of some materials of governmental funds are recorded as expenditures when consumed rather than when purchased, but the majority are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenses in both the government-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The City defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if acquired after July 1, 2003. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Infrastructure	20-50 years
Vehicles	3-25 years
Furniture and other equipment	3-15 years

Compensated Absences – It is the City’s policy to permit employees to accumulate earned but unused sick days. Depending on whether the employee is union, non-union, full-time or part-time and on hire date, the employee can accumulate from 45 to 180 sick days. Upon retirement or leaving the employment of the City, union employees are paid for one half of their accumulated days, while non-union employees are paid for all of their accumulated days, subject to certain limitations. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual’s employment has terminated as of year end.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

Property Taxes:

Property taxes attach as an enforceable lien on property as of December 1. Taxes are levied on July 1 and are due without penalty on or before July 31. The City bills and collects its own property taxes as well as those of Vassar Public Schools, Tuscola Intermediate School District and Tuscola County. Collections of these taxes and remittance of them to the entities are accounted for in the tax collection agency fund. City property tax revenues are recognized in the general fund. The delinquent real property taxes of the City are purchased by Tuscola County.

The 2007 taxable valuation of the City totaled \$53,168,493, on which ad valorem taxes levied consisted of 17.5000 mills for the City’s operating purposes.

The City also receives road taxes levied by Tuscola County.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first Council meeting in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them, for the General Fund and Special Revenue Funds.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to the third Monday in May, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency and Internal Service Funds.
5. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund budget as originally adopted and amended by the City Council is included in the required supplemental information.
6. All annual appropriations lapse at fiscal year end.

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	<i><u>Final Budget</u></i>	<i><u>Actual</u></i>	<i><u>Excess</u></i>
General Fund			
Other	\$ 14,646	\$ 34,239	\$ 19,593
Debt service interest	39,386	39,411	25

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk. At year-end, the City had \$2,984,412 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$613,397 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits, and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with acceptable estimated risk level are used as depositories.

At year-end, the City had no investments.

NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

The authorizing ordinance for the 1998 Refunding Bonds requires the establishment and maintenance of various reserve funds as follows:

Operation and Maintenance Fund - The City is required to set aside a sum sufficient to provide for the payment of the next month's administration and operation expenses.

Bond and Interest Redemption Fund - The City is required to set aside a sum sufficient to provide for the payment of the current bond principal and interest payment less accrued interest available in the Redemption Fund.

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Replacement Fund - The City is required to set aside money in a Replacement Fund, as the Council may deem advisable.

Improvement Fund - The City is required to set aside money in an Improvement Fund, as the Council may deem advisable.

The official statement for the 1998 Refunding Bonds states the following:

Bond Reserve Account: Upon the issuance of the Bonds, the bond reserve account established with respect to the Refunded Bonds (the "Bond Reserve Account") will be equal to the lesser of (1) the maximum annual debt service due on the Bonds, (2) 125% of the average annual debt service requirements on the Bonds, or (3) 10% of the principal amount of the Bonds. Except as provided in the Ordinance, the monies credited to the Bond Reserve Account shall be used solely for the payment of the principal and interest on the Bonds as to which there would otherwise be a default. If at any time it shall be necessary to use monies credited to the Bond Reserve Account for such payment, then the monies so used shall be replaced from the Net Revenues first received thereafter which are not required for current principal and interest requirements. If Additional Bonds from time to time are issued, each ordinance authorizing the Additional Bonds shall provide for additional deposits to the Bond Reserve Account to be made in an amount that will result in the Bond Reserve Account being equal to the lesser of (1), (2), or (3) above after issuance of the Additional Bonds.

As of June 30, 2008 the City has set aside sufficient amounts as follows:

	<i>Business-type Activities</i>		
	<i>Sewer</i>	<i>Water</i>	<i>Total</i>
Restricted cash and cash equivalents:			
Bond reserve	\$ 108,116	\$ 83,591	\$ 191,707
Bond and interest redemption	160	1,395	1,555
Replacement reserve	18,633	-	18,633
	<u>\$ 126,909</u>	<u>\$ 84,986</u>	<u>\$ 211,895</u>

The required minimum amount for the bond reserve is 125% of the average annual debt service requirement. The total bond reserve amount was deposited upon issuance of the bonds. The City has sufficient assets in both funds to fund the reserves.

NOTE 5: CAPITAL ASSETS

Capital assets activity of the City's governmental and business-type activities at June 30, 2008 was as follows:

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2008</u>
Governmental activities:				
Nondepreciable capital assets				
Land	\$ 526,669	\$ -	\$ -	\$ 526,669
Depreciable capital assets				
Buildings and improvements	1,317,363	-	-	1,317,363
Furniture and equipment	1,125,410	17,967	(7,615)	1,135,762
Infrastructure	1,483,355	6,178	-	1,489,533
Vehicles	730,533	-	-	730,533
Total depreciable capital assets	4,656,661	24,145	(7,615)	4,673,191
Accumulated depreciation	(1,978,767)	(187,526)	7,615	(2,158,678)
Depreciable capital assets, net	2,677,894	(163,381)	-	2,514,513
Governmental activities, capital assets, net	<u>\$ 3,204,563</u>	<u>\$ (163,381)</u>	<u>\$ -</u>	<u>\$ 3,041,182</u>
Business-type activities:				
Nondepreciable capital assets				
Land	\$ 43,009	\$ -	\$ -	\$ 43,009
Depreciable capital assets				
Equipment	548,583	186,561	(103,834)	631,310
Land improvements	60,489	-	-	60,489
Sewer mains	1,244,002	-	-	1,244,002
Sewer treatment plant	7,721,379	-	-	7,721,379
Water buildings and tower	518,952	-	-	518,952
Water mains	2,046,120	47,866	-	2,093,986
Total depreciable capital assets	12,139,525	234,427	(103,834)	12,270,118
Accumulated depreciation	(5,575,103)	(294,362)	99,760	(5,769,705)
Depreciable capital assets, net	6,564,422	(59,935)	(4,074)	6,500,413
Business-type activities, capital assets, net	<u>\$ 6,607,431</u>	<u>\$ (59,935)</u>	<u>\$ (4,074)</u>	<u>\$ 6,543,422</u>
Component units:				
Nondepreciable capital assets				
Land	\$ 54,264	\$ -	\$ (1,601)	\$ 52,663
Depreciable capital assets				
Buildings and improvements	79,845	-	(79,845)	-
Total depreciable capital assets	79,845	-	(79,845)	-
Accumulated depreciation	(1,597)	-	1,597	-
Depreciable capital assets, net	78,248	-	(78,248)	-
Component units, capital assets, net	<u>\$ 132,512</u>	<u>\$ -</u>	<u>\$ (79,849)</u>	<u>\$ 52,663</u>

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Depreciation expense was charged to programs of the governmental, business-type activities and component units as follows:

	<i>Governmental Activities</i>	<i>Business-type Activities</i>
General government	\$ 82,260	\$ -
Public safety	49,711	-
Public works	24,167	-
Recreation and culture	31,388	-
Sewer	-	230,805
Water	-	62,164
Stormwater Management	-	1,393
	<u>\$ 187,526</u>	<u>\$ 294,362</u>

NOTE 6: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At year end, the various components of deferred revenue are as follows:

	<i>Governmental Funds</i>	<i>Unavailable Component Units</i>
Personal property taxes	\$ 19,566	\$ -
Special assessments	3,203	-
Notes	<u>72,373</u>	<u>100,192</u>
Total	<u>\$ 95,142</u>	<u>\$ 100,192</u>

NOTE 7: LONG-TERM LIABILITIES

The City may issue bonds, loans, notes and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds and County contracts are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term obligations include compensated absences.

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Long-term liabilities at June 30, 2008 consisted of the following:

<u>Types of Indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Balance at Year-End</u>
Governmental activities:					
<i>Notes:</i>					
2004 Rural Development - Fire Truck	9/01/07-9/01/19	4.75%	\$7,000-8,700	\$ 111,700	\$ 91,700
<i>Agreements:</i>					
2004 Installment Purchase - Street Sweeper	10/28/07-10/28/10	3.30%	25,780-29,428	162,800	85,411
2005 Installment Purchase - Crown Victorias	8/05/07	6.00%	14,803-15,691	47,126	-
2006 County Contract - Moore Drain	12/01/07-12/01/25	5.31734%	34,341	686,826	618,144
Business-type activities:					
<i>Revenue Refunding Bonds:</i>					
1998 Issue - Water and Sewer Systems	4/01/07-4/01/27	4.6-5.25%	\$45,000-180,000	\$ 2,775,000	\$ 1,270,000

The following is a summary of long-term liabilities transactions for the year ended June 30, 2008:

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2008</u>	<u>Due Within One Year</u>
Governmental activities:					
<i>Notes and Agreements:</i>					
2005 Installment purchase - Crown Victorias	\$ 15,691	\$ -	\$ (15,691)	\$ -	\$ -
2004 Installment purchase - Street Sweeper	112,061	-	(26,650)	85,411	27,537
2004 Rural Development note - Fire Truck	98,700	-	(7,000)	91,700	7,000
2006 County Contract - Moore Drain	652,485	-	(34,341)	618,144	34,341
Compensated absences	51,779	-	(5,907)	45,872	-
Total governmental activities					
-long-term liabilities	<u>\$ 930,716</u>	<u>\$ -</u>	<u>\$ (89,589)</u>	<u>\$ 841,127</u>	<u>\$ 68,878</u>
Business-type activities:					
<i>Revenue Refunding Bonds:</i>					
1998 Issue	\$ 1,440,000	\$ -	\$ (170,000)	\$ 1,270,000	\$ 170,000
Compensated absences	29,334	1,756	-	31,090	-
Total business-type activities					
-long-term liabilities	<u>\$ 1,469,334</u>	<u>\$ 1,756</u>	<u>\$ (170,000)</u>	<u>\$ 1,301,090</u>	<u>\$ 170,000</u>

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Annual debt service requirements to maturity for all outstanding debt (excluding compensated absences payable) as of June 30, 2008 are as follows:

<i>Fiscal Year Ended</i>	<i>Governmental Activities</i>			<i>Business-type Activities</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2009	\$ 68,878	\$ 40,011	\$ 108,889	\$ 170,000	\$ 64,792	\$ 234,792
2010	69,800	36,840	106,640	180,000	56,633	236,633
2011	70,756	33,725	104,481	50,000	47,812	97,812
2012	41,341	30,583	71,924	50,000	45,250	95,250
2013	41,341	28,495	69,836	50,000	42,688	92,688
2014-2018	211,705	109,202	320,907	240,000	175,256	415,256
2019-2023	188,405	55,414	243,819	270,000	114,187	384,187
2024-2026	103,029	10,960	113,989	260,000	34,125	294,125
	<u>\$ 795,255</u>	<u>\$ 345,230</u>	<u>\$ 1,140,485</u>	<u>\$ 1,270,000</u>	<u>\$ 580,743</u>	<u>\$ 1,850,743</u>

NOTE 8: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the City's governmental, business-type activities and component units in the aggregate are as follows:

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Component Units</i>
Receivables:			
Personal property taxes	\$ 19,566	\$ -	\$ -
Accounts	52,106	96,410	-
Special assessments	3,203	33,205	-
Notes/Loans	72,373	-	100,192
Accrued interest	148	591	-
Intergovernmental	142,344	-	-
Total receivables	<u>\$ 289,740</u>	<u>\$ 130,206</u>	<u>\$ 100,192</u>
Accounts payable and accrued expenses:			
Accounts	\$ 48,425	\$ 10,790	\$ 11,545
Deposits	14,400	-	-
Accrued interest	22,586	16,198	-
Intergovernmental	17,993	-	-
Total accounts payable and accrued expenses	<u>\$ 103,404</u>	<u>\$ 26,988</u>	<u>\$ 11,545</u>

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 9: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at June 30, 2008 is as follows:

<i>Receivable Fund</i>	<i>Payable Fund</i>	<i>Amount</i>
Local Street Fund	General Fund	\$ 300
Cemetery Operating Fund	Cemetery Perpetual Care Fund	1,787
Sewer Fund	General Fund	1,088
Sewer Fund	Water Fund	75,000
Water Fund	General Fund	<u>2,021</u>
		<u>\$ 80,196</u>

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year. The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers reported in the fund statements were as follows:

<i>Funds Transferred From</i>	<i>Funds Transferred To</i>	<i>Amount</i>
General Fund	Nonmajor Governmental Funds	
	Major Street Fund	\$ -
	Local Street Fund	75,000
	Fire Fund	36,466
	Cemetery Operating Fund	28,907
	DPW Park Maintenance Fund	105,820
	Parks and Recreation Fund	29,504
	Equipment Replacement Fund	<u>34,375</u>
		\$ 310,072
Nonmajor Governmental Funds	Nonmajor Governmental Funds	
Cemetery Operating Fund	Cemetery Perpetual Care Fund	<u>4,376</u>
	Total	<u>\$ 314,448</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 10: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages its workers'

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

compensation insurance by participating in Michigan Municipal League, a public entity risk pool providing workers' compensation coverage to its participating members.

The City pays an annual premium to Michigan Municipal League for its insurance coverage. The Michigan Municipal League is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based coverage for each incident to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City obtains its other insurance coverage through a commercial insurance company.

NOTE 11: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's management and personnel policy. The required employee contribution rates and the City's actuarially determined rates for the fiscal year ended June 30, 2008 were as follows:

<i><u>Valuation Division</u></i>	<i><u>Employer Contribution Rate</u></i>	<i><u>Employee Contribution Rate</u></i>
General - Non-Union	12.37%	4.70%
Police - Non-Union	17.14%	4.80%
General - Union	9.89%	4.70%
Clerical - Union	9.61%	4.70%
Police - POAM	11.00%	4.80%

Annual Pension Costs – For year ended June 30, 2008, the City's annual pension cost of \$96,276 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year; and (iii) 2.5% per year cost of living adjustments. All are determined using techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized at a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Three year trend information as of June 30, follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Annual pension cost	\$ 96,276	\$ 105,265	\$ 92,416
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Funded Status –

A schedule of funding progress as of the most recent actuarial valuation is as follows:

<i>Actuarial Valuation Date, December 31,</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability</i>	<i>Unfunded Liability</i>	<i>Funded Ratio</i>	<i>Covered Payroll</i>	<i>Unfunded Liability as Percentage of Covered Payroll</i>
2007	\$ 4,452,504	\$ 5,181,781	\$ 729,277	86%	\$ 1,018,319	72%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

Post Employment Benefits:

In addition to the pension benefits described above, the City has a policy of paying the health insurance of all department heads upon retirement that had obtained twenty years of service. This benefit is payable until death. Currently, there are four retirees eligible for and receiving this benefit. The City is using a pay-as-you-go method of funding this benefit. The amount paid for the year ended June 30, 2008 was \$25,883.

Deferred Compensation Plan:

The employees of the City are allowed to contribute on a voluntary basis to a deferred compensation plan through payroll deductions. The plan is made available to all eligible employees by authority of Section 457 of the Internal Revenue Code (IRC), and is administered by ICMA Retirement Corporation. Employees may set aside and invest portions of their current income to meet their financial requirements and supplement their retirement and social security benefits.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year beginning July 1, 2009.

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 12: FUND EQUITY

Specific reservations on fund equity include:

Reserved for inventory – This reserve was created to indicate that the portion of fund balance represented by inventory is not available for appropriation and expenditure.

Reserved for prepaid expenditures – This reserve was created to indicate that the portion of fund balance represented by prepaid expenditures is not available for appropriation.

Reserved for nonexpendable cemetery principal – This reserve was created to indicate that portion of fund balance representing the nonexpendable principal portion required to be retained in perpetuity for cemetery care.

Specific designations on fund equity include:

Designated for accumulated sick leave – This designation was created to indicate funds set aside to cover payment of accumulated sick leave.

NOTE 13: COMPONENT UNITS REPORTING

Statement of Net Assets:

	<i>Economic Development Corporation</i>	<i>Downtown Development Authority</i>	<i>Total Component Units</i>
Assets:			
Cash and cash equivalents	\$ 82,073	\$ 54,044	\$ 136,117
Receivables	-	100,192	100,192
Capital assets:			
Nondepreciable capital assets	-	52,663	52,663
Total assets	82,073	206,899	288,972
Liabilities:			
Accounts payable and accrued expenses	5,427	6,118	11,545
Total liabilities	5,427	6,118	11,545
Net assets:			
Invested in capital assets	-	52,663	52,663
Unrestricted	76,646	148,118	224,764
Total net assets	\$ 76,646	\$ 200,781	\$ 277,427

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Statement of Activities:

	<i><u>Economic Development Corporation</u></i>	<i><u>Downtown Development Authority</u></i>	<i><u>Total Component Units</u></i>
Revenues:			
Program revenues			
Charges for services	\$ -	\$ 1,980	\$ 1,980
General revenues			
Property taxes	44,288	41,610	85,898
Investment earnings	403	417	820
Miscellaneous	-	400	400
Special item - Gain on sale of property	-	150	150
Total revenues	<u>44,691</u>	<u>44,557</u>	<u>89,248</u>
Expenses:			
Community and economic development	<u>24,497</u>	<u>18,260</u>	<u>42,757</u>
Total expenses	<u>24,497</u>	<u>18,260</u>	<u>42,757</u>
Change in net assets	20,194	26,297	46,491
Net assets, beginning of year	<u>107,610</u>	<u>123,326</u>	<u>230,936</u>
Net assets, end of year	<u>\$ 127,804</u>	<u>\$ 149,623</u>	<u>\$ 277,427</u>

REQUIRED SUPPLEMENTAL INFORMATION

**SCHEDULE OF PENSION PLAN
FUNDING PROGRESS**

Year Ended June 30, 2008

<i><u>Actuarial Valuation Date</u></i>	<i><u>12/31/07</u></i>	<i><u>12/31/06</u></i>	<i><u>12/31/05</u></i>
Actuarial Value of Assets	\$ 4,452,504	\$ 4,163,696	\$ 3,888,727
Actuarial Accrued Liability (AAL)	5,181,781	4,956,839	4,697,685
Unfunded AAL (UAAL)	729,277	793,143	808,958
Funded Ratio	86%	84%	83%
Covered Payroll	1,018,319	1,001,592	1,001,251
UAAL as a percentage of covered payroll	72%	79%	81%

CITY OF VASSAR

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	<i>Budgeted Amounts</i>			<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	
Revenues:				
Property taxes	\$ 925,416	\$ 921,757	\$ 919,307	\$ (2,450)
Licenses and permits	10,506	10,506	11,094	588
State grants	366,923	362,683	362,631	(52)
Contributions from other units	5,166	5,166	5,166	-
Charges for services	209,559	209,559	205,992	(3,567)
Fines and forfeits	10,000	10,000	7,583	(2,417)
Interest and rents	219,997	206,497	205,162	(1,335)
Other revenue	113,645	109,120	107,500	(1,620)
Total revenues	1,861,212	1,835,288	1,824,435	(10,853)
Expenditures:				
Current				
General government	526,762	529,822	484,569	(45,253)
Public safety	568,352	527,664	509,155	(18,509)
Public works	267,109	267,368	251,037	(16,331)
Health and welfare	22,585	22,585	22,584	(1)
Community and economic development	6,000	5,740	4,817	(923)
Other	15,345	14,646	34,239	19,593
Capital outlay	15,400	33,240	20,322	(12,918)
Debt service				
Principal	81,372	76,682	76,682	-
Interest and fees	34,695	39,386	39,411	25
Total expenditures	1,537,620	1,517,133	1,442,816	(74,317)
Excess (deficiency) of revenues over expenditures	323,592	318,155	381,619	63,464
Other financing sources (uses):				
Insurance recoveries	-	6,700	14,110	7,410
Transfers to other funds	(309,496)	(316,672)	(310,072)	6,600
Total other financing sources (uses)	(309,496)	(309,972)	(295,962)	14,010
Net change in fund balance	14,096	8,183	85,657	77,474
Fund balance, beginning of year	429,711	429,711	429,711	-
Fund balance, end of year	\$ 443,807	\$ 437,894	\$ 515,368	\$ 77,474

OTHER SUPPLEMENTAL INFORMATION

CITY OF VASSAR

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended June 30, 2008

Revenues:

Current Taxes:

Property taxes	\$ 877,235
Penalties and interest	10,432
Administration fees	27,214
Payment in lieu of taxes	4,426
	<u>919,307</u>

Licenses and permits:

Business licenses and permits	2,880
CATV franchise fees	8,214
	<u>11,094</u>

State Grants:

Liquor license fees	1,196
State revenue sharing - sales tax	359,914
Police	1,521
	<u>362,631</u>

Contribution from other units:

Bullard Sanford Memorial Library - administrative charges	<u>5,166</u>
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Charges for services:

Refuse collection fees	110,097
Ambulance	22,785
Police services and reports	2,990
Other	10,182
Charges to other funds	59,938
	<u>205,992</u>

Fines and forfeits:

Ordinance fines	<u>7,583</u>
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Interest and rents:

Interest	33,569
Equipment rent	163,543
Rents	8,050
	<u>205,162</u>

Other Revenue:

Contributions and donations	17,700
Reimbursements	79,813
Loan repayments	4,066
Other	5,921
	<u>107,500</u>

Total revenues	<u>1,824,435</u>
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Other Financing Sources:

Insurance recoveries	<u>14,110</u>
Total revenues and other financing sources	<u>\$ 1,838,545</u>

CITY OF VASSAR

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended June 30, 2008

Expenditures:

General Government:

Mayor and Council:

Personnel	\$ 2,650
Fringe benefits	203
Conference and travel	345
Printing and publications	5,641
Other	97
	<u>8,936</u>

Manager:

Personnel	66,167
Fringe benefits	13,266
Supplies	165
Dues and subscriptions	315
Conference and travel	996
	<u>80,909</u>

Clerk:

Personnel	47,693
Fringe benefits	10,563
Supplies	229
Dues and subscriptions	190
Conference and travel	1,072
	<u>59,747</u>

Audit:

Contracted services	<u>9,240</u>
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Information Technology:

Contracted services	<u>11,916</u>
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Treasurer:

Personnel	75,551
Fringe benefits	48,694
Contracted services	650
Dues and subscriptions	145
Conference and travel	69
	<u>125,109</u>

Assessor:

Personnel	600
Contracted services	9,000
Printing and publications	296
	<u>9,896</u>

Elections:

Supplies	1,590
Contracted services	1,838
	<u>3,428</u>

CITY OF VASSAR

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended June 30, 2008

Expenditures, continued:

General Government, continued:

Building and Grounds:

Personnel	67,769
Fringe benefits	13,102
Supplies	13,556
Contracted services	3,981
Communication	8,712
Dues and subscriptions	3,769
Conference and travel	2,093
Utilities	17,932
Repairs and maintenance	16,724
Equipment rental	3,040
Other	231
	<hr/>
	150,909

Attorney:

Contracted services	<hr/>
	23,784

Community Promotion and Marketing:

Supplies	445
Contracted services	<hr/>
	250
	<hr/>
	695

Total general government	<hr/>
	484,569

Public Safety:

Police:

Personnel	325,062
Fringe benefits	140,955
Supplies	18,772
Contracted services	3,576
Communication	4,143
Dues and subscriptions	185
Conference and travel	2,972
Insurance	5,283
Repairs and maintenance	8,014
Equipment rental	<hr/>
	193
	<hr/>
	509,155

Public Works:

Department of Public Works:

Personnel	23,283
Fringe benefits	4,829
Supplies	24,732
Contracted services	1,611
Repairs and maintenance	12,811
Equipment rental	<hr/>
	4,139
	<hr/>
	71,405

CITY OF VASSAR

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended June 30, 2008

Expenditures, continued:

Sidewalks:

Personnel	3,400
Fringe benefits	257
Supplies	583
Repairs and maintenance	5,212
Equipment rental	1,951
	<u>11,403</u>

Street Lighting:

Utilities	<u>53,556</u>
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Refuse:

Contracted services	<u>108,488</u>
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Parking Lot:

Personnel	1,200
Fringe benefits	90
Supplies	121
Utilities	3,233
Equipment rental	1,541
	<u>6,185</u>

Total public works	<u>251,037</u>
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Health and Welfare:

Ambulance:

Contracted services	<u>22,584</u>
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Community and Economic Development:

Economic Development:

Contracted services	4,740
Equipment rental	77
	<u>4,817</u>

Other:

Insurance and bonds	11,646
Fringe benefits	1,188
Tax tribunal refunds	21,405
	<u>34,239</u>

CITY OF VASSAR

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended June 30, 2008

Expenditures, continued:

Capital Outlay:

General government	12,447
Public safety	925
Public works	<u>6,950</u>
	<u>20,322</u>

Debt Service:

Principal	76,682
Interest and fees	<u>39,411</u>
	<u>116,093</u>

Total expenditures	<u>1,442,816</u>
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Other Financing Uses:

Transfers to other funds	<u>310,072</u>
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Total expenditures and other financing uses	<u><u>\$ 1,752,888</u></u>
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CITY OF VASSAR

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2008

	<i>Special Revenue Funds</i>					
	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Highway Fund</i>	<i>Fire Fund</i>	<i>Cemetery Operating Fund</i>	<i>Band Fund</i>
Assets:						
Cash and cash equivalents	\$ 250,621	\$ 229,539	\$ (20,906)	\$ 99,891	\$ 12,988	\$ 2,160
Accounts receivable	-	-	-	20,888	1,995	-
Special assessments receivable	-	3,203	-	-	-	-
Notes receivable	-	-	-	29,999	-	-
Accrued interest receivable	-	148	-	-	-	-
Due from other governmental units	23,787	9,318	34,084	-	-	-
Due from other funds	-	300	-	-	1,787	-
Prepaid expenditures	3,076	3,076	-	283	153	-
Total assets	<u>\$ 277,484</u>	<u>\$ 245,584</u>	<u>\$ 13,178</u>	<u>\$ 151,061</u>	<u>\$ 16,923</u>	<u>\$ 2,160</u>
Liabilities and Fund Balances:						
Liabilities:						
Accounts payable	\$ 400	\$ 341	\$ 60	\$ 2,917	\$ 477	\$ 487
Due to other funds	-	-	-	-	-	-
Deferred revenue	-	3,203	-	29,999	-	-
Total liabilities	<u>400</u>	<u>3,544</u>	<u>60</u>	<u>32,916</u>	<u>477</u>	<u>487</u>
Fund balances:						
Reserved for:						
Prepaid expenditures	3,076	3,076	-	283	153	-
Nonexpendable cemetery principal	-	-	-	-	-	-
Unreserved:						
Special revenue funds	<u>274,008</u>	<u>238,964</u>	<u>13,118</u>	<u>117,862</u>	<u>16,293</u>	<u>1,673</u>
Total fund balances	<u>277,084</u>	<u>242,040</u>	<u>13,118</u>	<u>118,145</u>	<u>16,446</u>	<u>1,673</u>
Total liabilities and fund balances	<u>\$ 277,484</u>	<u>\$ 245,584</u>	<u>\$ 13,178</u>	<u>\$ 151,061</u>	<u>\$ 16,923</u>	<u>\$ 2,160</u>

<i>Special Revenue Funds</i>						<i>Permanent Fund</i>	<i>Total Nonmajor Governmental Funds</i>
<i>DPW Park Maintenance Fund</i>	<i>Parks and Recreation Fund</i>	<i>Street Lighting Fund</i>	<i>Drug Law Enforcement Fund</i>	<i>Equipment Replacement Fund</i>	<i>DDA Loan Revolving Fund</i>	<i>Cemetery Perpetual Care Fund</i>	
\$ 5,253	\$ 5,301	\$ 3,570	\$ 517	\$ 74,252	\$ 32,230	\$ 120,796	\$ 816,212
-	1,500	-	-	-	-	400	24,783
-	-	-	-	-	-	-	3,203
-	-	-	-	-	15,673	-	45,672
-	-	-	-	-	-	-	148
-	-	-	-	-	-	-	67,189
-	-	-	-	-	-	-	2,087
293	-	-	-	-	-	-	6,881
<u>\$ 5,546</u>	<u>\$ 6,801</u>	<u>\$ 3,570</u>	<u>\$ 517</u>	<u>\$ 74,252</u>	<u>\$ 47,903</u>	<u>\$ 121,196</u>	<u>\$ 966,175</u>
\$ 1,360	\$ 138	\$ 569	\$ -	\$ -	\$ -	\$ -	\$ 6,749
-	-	-	-	-	-	1,787	1,787
-	-	-	-	-	15,673	-	48,875
1,360	138	569	-	-	15,673	1,787	57,411
293	-	-	-	-	-	-	6,881
-	-	-	-	-	-	119,409	119,409
3,893	6,663	3,001	517	74,252	32,230	-	782,474
4,186	6,663	3,001	517	74,252	32,230	119,409	908,764
<u>\$ 5,546</u>	<u>\$ 6,801</u>	<u>\$ 3,570</u>	<u>\$ 517</u>	<u>\$ 74,252</u>	<u>\$ 47,903</u>	<u>\$ 121,196</u>	<u>\$ 966,175</u>

CITY OF VASSAR

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	<i>Special Revenue Funds</i>					
	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Highway Fund</i>	<i>Fire Fund</i>	<i>Cemetery Operating Fund</i>	<i>Band Fund</i>
Revenues:						
Property taxes	\$ 50,563	\$ 25,154	\$ -	\$ -	\$ -	\$ -
Federal grants	-	-	-	3,131	-	-
State grants	152,420	59,256	47,667	-	-	-
Contributions from other units	-	-	-	75,747	-	-
Charges for services	-	-	-	10	30,174	-
Interest and rents	7,331	8,536	84	4,067	239	124
Other revenue	429	5,414	-	141	10,949	480
Total revenues	<u>210,743</u>	<u>98,360</u>	<u>47,751</u>	<u>83,096</u>	<u>41,362</u>	<u>604</u>
Expenditures:						
Current						
General government	-	-	-	-	72,342	-
Public safety	-	-	-	104,928	-	-
Public works	160,023	159,797	39,679	-	-	-
Recreation and culture	-	-	-	-	-	3,384
Capital outlay	-	-	-	5,000	2,329	-
Debt service						
Principal	-	-	-	7,000	-	-
Interest and fees	-	-	-	4,522	-	-
Total expenditures	<u>160,023</u>	<u>159,797</u>	<u>39,679</u>	<u>121,450</u>	<u>74,671</u>	<u>3,384</u>
Excess (deficiency) of revenues over expenditures	<u>50,720</u>	<u>(61,437)</u>	<u>8,072</u>	<u>(38,354)</u>	<u>(33,309)</u>	<u>(2,780)</u>
Other financing sources (uses):						
Transfers from other funds	-	75,000	-	36,466	33,283	-
Transfers to other funds	-	-	-	-	-	-
Total other financing sources	<u>-</u>	<u>75,000</u>	<u>-</u>	<u>36,466</u>	<u>33,283</u>	<u>-</u>
Net change in fund balance	50,720	13,563	8,072	(1,888)	(26)	(2,780)
Fund balances, beginning of year	<u>226,364</u>	<u>228,477</u>	<u>5,046</u>	<u>120,033</u>	<u>16,472</u>	<u>4,453</u>
Fund balances, end of year	<u>\$ 277,084</u>	<u>\$ 242,040</u>	<u>\$ 13,118</u>	<u>\$ 118,145</u>	<u>\$ 16,446</u>	<u>\$ 1,673</u>

<i>Special Revenue Funds</i>						<i>Permanent Fund</i>	<i>Total Nonmajor Governmental Funds</i>
<i>DPW Park Maintenance Fund</i>	<i>Parks and Recreation Fund</i>	<i>Street Lighting Fund</i>	<i>Drug Law Enforcement Fund</i>	<i>Equipment Replacement Fund</i>	<i>DDA Loan Revolving Fund</i>	<i>Cemetery Perpetual Care Fund</i>	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 75,717
-	-	-	-	-	-	-	3,131
-	-	-	-	-	-	-	259,343
-	-	-	-	-	-	-	75,747
560	9,537	-	-	-	-	-	40,281
9,167	161	242	18	1,548	1,213	4,376	37,106
748	7,100	6,893	-	7,830	750	2,600	43,334
10,475	16,798	7,135	18	9,378	1,963	6,976	534,659
-	-	-	-	-	-	-	72,342
-	-	-	-	-	-	-	104,928
-	-	6,660	-	-	-	-	366,159
116,522	46,302	-	-	-	-	-	166,208
-	-	-	-	-	-	-	7,329
-	-	-	-	-	-	-	7,000
-	-	-	-	-	-	-	4,522
116,522	46,302	6,660	-	-	-	-	728,488
(106,047)	(29,504)	475	18	9,378	1,963	6,976	(193,829)
105,820	29,504	-	-	34,375	-	-	314,448
-	-	-	-	-	-	(4,376)	(4,376)
105,820	29,504	-	-	34,375	-	(4,376)	310,072
(227)	-	475	18	43,753	1,963	2,600	116,243
4,413	6,663	2,526	499	30,499	30,267	116,809	792,521
\$ 4,186	\$ 6,663	\$ 3,001	\$ 517	\$ 74,252	\$ 32,230	\$ 119,409	\$ 908,764

CITY OF VASSAR

COMPONENT UNITS
COMBINING BALANCE SHEET
 June 30, 2008

	<i><u>Economic Development Corporation</u></i>	<i><u>Downtown Development Authority</u></i>	<i><u>Total Component Units</u></i>
Assets:			
Cash and cash equivalents	\$ 82,073	\$ 54,044	\$ 136,117
Notes receivable	-	100,192	100,192
Total assets	<u>\$ 82,073</u>	<u>\$ 154,236</u>	<u>\$ 236,309</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 5,427	\$ 6,118	\$ 11,545
Deferred revenue	-	100,192	100,192
Total liabilities	<u>5,427</u>	<u>106,310</u>	<u>111,737</u>
Fund balances:			
Unreserved	<u>76,646</u>	<u>47,926</u>	<u>124,572</u>
Total fund balances	<u>76,646</u>	<u>47,926</u>	<u>124,572</u>
Total liabilities and fund balances	<u>\$ 82,073</u>	<u>\$ 154,236</u>	<u>\$ 236,309</u>

RECONCILIATION OF FUND BALANCES TO NET ASSETS:

Total fund balances for component units \$ 124,572

Total net assets reported for the component units in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental capital assets	52,663	
Less accumulated depreciation	<u>-</u>	52,663

Deferred revenues reported in the component units funds are recognized as revenues for the statement of activities.

Notes	<u>100,192</u>
Net assets of component units	<u><u>\$ 277,427</u></u>

CITY OF VASSAR

COMPONENT UNITS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	<i><u>Economic Development Corporation</u></i>	<i><u>Downtown Development Authority</u></i>	<i><u>Total Component Units</u></i>
Revenues:			
Property taxes	\$ 44,288	\$ 41,610	\$ 85,898
Interest and rents	403	417	820
Other revenue	-	1,118	1,118
Total revenues	<u>44,691</u>	<u>43,145</u>	<u>87,836</u>
Expenditures:			
Current			
Community and economic development	<u>24,497</u>	<u>18,260</u>	<u>42,757</u>
Total expenditures	<u>24,497</u>	<u>18,260</u>	<u>42,757</u>
Net change in fund balances	20,194	24,885	45,079
Fund balances, beginning of year	<u>56,452</u>	<u>23,041</u>	<u>79,493</u>
Fund balances, end of year	<u>\$ 76,646</u>	<u>\$ 47,926</u>	<u>\$ 124,572</u>

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF THE COMPONENT UNITS TO THE STATEMENT OF ACTIVITIES:

Net change in fund balances - component units \$ 45,079

Total change in net assets reported for the component units in the statement of activities is different because:

Component units report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	-	
Less depreciation expense	-	-
Add gain on disposal of assets	<u>150</u>	<u>150</u>

Collection of certain items recorded as deferred revenue are considered current financial resources in the component units funds. In the statement of activities these items have been recorded as revenue.

Notes	<u>1,262</u>
Change in net assets of component units	<u>\$ 46,491</u>

FIDUCIARY FUNDS – TRUST FUNDS

COMBINING STATEMENT OF NET ASSETS

June 30, 2008

	<i>Fred LaPratt Memorial Fund</i>
Assets:	
Cash and cash equivalents	\$ 2,844
Total assets	<u>\$ 2,844</u>
Net Assets:	
Held in trust	<u>2,844</u>
Total net assets	<u>\$ 2,844</u>

CITY OF VASSAR

FIDUCIARY FUNDS – TRUST FUNDS

COMBINING STATEMENT OF CHANGES IN NETS ASSETS

Year Ended June 30, 2008

	<i>Fred LaPratt Memorial Fund</i>
Additions:	
Investment income	\$ 99
Total additions	99
Net increase (decrease)	99
Net assets held in trust, beginning of year	2,745
Net assets held in trust, end of year	\$ 2,844

CITY OF VASSAR

FIDUCIARY FUNDS – AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

June 30, 2008

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2008</u>
<u>Agency Fund</u>				
Assets:				
Cash and cash equivalents	\$ 19,967	\$ 1,902,396	\$ 1,900,621	\$ 21,742
Liabilities:				
Accounts payable	\$ 19,967	\$ 1,902,396	\$ 1,900,621	\$ 21,742
<u>Tax Fund</u>				
Assets:				
Cash and cash equivalents	\$ 474	\$ 927,598	\$ 906,715	\$ 21,357
Liabilities:				
Accounts payable	\$ 474	\$ 9,184	\$ 8	\$ 9,650
Due to other governmental units	-	918,414	906,707	11,707
Total liabilities	\$ 474	\$ 927,598	\$ 906,715	\$ 21,357
<u>Total Agency Funds</u>				
Assets:				
Cash and cash equivalents	\$ 20,441	\$ 2,829,994	\$ 2,807,336	\$ 43,099
Liabilities:				
Accounts payable	\$ 20,441	\$ 1,911,580	\$ 1,900,629	\$ 31,392
Due to other governmental units	-	918,414	906,707	11,707
	\$ 20,441	\$ 2,829,994	\$ 2,807,336	\$ 43,099

CITY OF VASSAR

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2008

RURAL DEVELOPMENT LOAN - FIRE TRUCK

Issue dated September 20, 2004 in the amount of	\$	111,700
Less: Principal paid in prior years		(13,000)
Principal paid in current year		<u>(7,000)</u>
Balance payable at June 30, 2008	\$	<u>91,700</u>

Balance payable as follows:

<i><u>Fiscal</u></i> <i><u>Year Ended</u></i>	<i><u>Interest</u></i> <i><u>Rate</u></i>	<i><u>Principal due</u></i> <i><u>September 1</u></i>	<i><u>Interest due</u></i> <i><u>September 1</u></i>	<i><u>Interest due</u></i> <i><u>March 1</u></i>	<i><u>Total</u></i> <i><u>Annual</u></i> <i><u>Requirement</u></i>
2009	4.75%	\$ 7,000	\$ 2,178	\$ 2,012	\$ 11,190
2010	4.75%	7,000	2,012	1,845	10,857
2011	4.75%	7,000	1,845	1,679	10,524
2012	4.75%	7,000	1,679	1,513	10,192
2013	4.75%	7,000	1,513	1,347	9,860
2014	4.75%	8,000	1,347	1,157	10,504
2015	4.75%	8,000	1,157	967	10,124
2016	4.75%	8,000	967	777	9,744
2017	4.75%	8,000	777	587	9,364
2018	4.75%	8,000	587	397	8,984
2019	4.75%	8,000	397	207	8,604
2020	4.75%	8,700	-	-	8,700
		<u>\$ 91,700</u>	<u>\$ 14,459</u>	<u>\$ 12,488</u>	<u>\$ 118,647</u>

Note: The Fire Fund is obligated for this loan.

CITY OF VASSAR

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2008

INSTALLMENT PURCHASE AGREEMENT - STREET SWEEPER

Issue dated October 28, 2004 in the amount of	\$	162,800
Less: Principal paid in prior years		(50,739)
Principal paid in current year		<u>(26,650)</u>
Balance payable at June 30, 2008	\$	<u>85,411</u>

Balance payable as follows:

<i><u>Fiscal</u></i> <i><u>Year Ended</u></i>	<i><u>Interest</u></i> <i><u>Rate</u></i>	<i><u>Principal due</u></i> <i><u>October 28</u></i>	<i><u>Interest due</u></i> <i><u>October 28</u></i>	<i><u>Total</u></i> <i><u>Annual</u></i> <i><u>Requirement</u></i>
2009	3.30%	\$ 27,537	\$ 2,862	\$ 30,399
2010	3.30%	28,459	1,940	30,399
2011	3.30%	<u>29,415</u>	<u>984</u>	<u>30,399</u>
		<u>\$ 85,411</u>	<u>\$ 5,786</u>	<u>\$ 91,197</u>

Note: The General Fund is obligated for this loan.

INSTALLMENT PURCHASE AGREEMENT - 2005 CROWN VICTORIA POLICE CARS (2)

Issue dated August 5, 2005 in the amount of	\$	47,126
Less: Principal paid in prior years		(31,435)
Principal paid in current year		<u>(15,691)</u>
Balance payable at June 30, 2008	\$	<u>-</u>

Note: The General Fund is obligated for this loan.

CITY OF VASSAR

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2008

2006 COUNTY CONTRACT FINANCING

Issue dated August 1, 2006 in the amount of	\$	686,826
Less: Principal paid in prior years		(34,341)
Principal paid in current year		<u>(34,341)</u>
Balance payable at June 30, 2008	\$	<u>618,144</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Principal due December 1</i>	<i>Interest due December 1</i>	<i>Total Annual Requirement</i>
2009	5.317%	\$ 34,341	\$ 32,959	\$ 67,300
2010	5.317%	34,341	31,043	65,384
2011	5.317%	34,341	29,217	63,558
2012	5.317%	34,341	27,391	61,732
2013	5.317%	34,341	25,635	59,976
2014	5.317%	34,341	23,739	58,080
2015	5.317%	34,341	21,913	56,254
2016	5.317%	34,341	20,086	54,427
2017	5.317%	34,341	18,310	52,651
2018	5.317%	34,341	16,434	50,775
2019	5.317%	34,341	14,608	48,949
2020	5.317%	34,341	12,782	47,123
2021	5.317%	34,341	10,986	45,327
2022	5.317%	34,341	9,130	43,471
2023	5.317%	34,341	7,304	41,645
2024	5.317%	34,341	5,478	39,819
2025	5.317%	34,341	3,662	38,003
2026	5.317%	<u>34,347</u>	<u>1,820</u>	<u>36,167</u>
		\$ 618,144	\$ 312,497	\$ 930,641

Note: The General Fund is obligated for this debt.

CITY OF VASSAR

BUSINESS-TYPE ACTIVITIES **SCHEDULE OF INDEBTEDNESS**

June 30, 2008

1998 SERIES - WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE REFUNDING BONDS

Issue dated August 13, 1998 in the amount of	\$	2,775,000
Less: Principal paid in prior years	(1,335,000)	
Principal paid in current year	<u>(170,000)</u>	
Balance payable at June 30, 2008	<u>\$</u>	<u>1,270,000</u>

Balance payable as follows:

<i><u>Fiscal</u></i> <i><u>Year Ended</u></i>	<i><u>Interest</u></i> <i><u>Rate</u></i>	<i><u>Principal due</u></i>	<i><u>Interest due</u></i>	<i><u>Total</u></i> <i><u>Annual</u></i> <i><u>Requirement</u></i>
2009	4.800%	\$ 170,000	\$ 64,792	\$ 234,792
2010	4.900%	180,000	56,633	236,633
2011	5.125%	50,000	47,812	97,812
2012	5.125%	50,000	45,250	95,250
2013	5.125%	50,000	42,688	92,688
2014	5.125%	50,000	40,125	90,125
2015	5.125%	50,000	37,562	87,562
2016	5.125%	50,000	35,000	85,000
2017	5.125%	45,000	32,438	77,438
2018	5.125%	45,000	30,131	75,131
2019	5.250%	45,000	27,825	72,825
2020	5.250%	45,000	25,462	70,462
2021	5.250%	45,000	23,100	68,100
2022	5.250%	70,000	20,738	90,738
2023	5.250%	65,000	17,062	82,062
2024	5.250%	65,000	13,650	78,650
2025	5.250%	65,000	10,238	75,238
2026	5.250%	65,000	6,825	71,825
2027	5.250%	<u>65,000</u>	<u>3,412</u>	<u>68,412</u>
		<u>\$ 1,270,000</u>	<u>\$ 580,743</u>	<u>\$ 1,850,743</u>

Note: The Sewer Fund is obligated for 56.3964% and the Water Fund is obligated for 43.6036% of this debt.

Sewer Fund	\$	716,234
Water Fund	<u></u>	<u>553,766</u>
	<u>\$</u>	<u>1,270,000</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the City Council
City of Vassar, Michigan

We have audited the financial statements of the City of Vassar as of and for the year ended June 30, 2008, and have issued our report thereon dated October 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Vassar's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We identified deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above, as follows:

Recording, Processing and Summarizing Accounting Data

Criteria: All governments are required to have in place internal controls over recording, processing and summarizing accounting data and preparing financial statements.

Conditions: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the recording, processing and summarizing accounting data and preparing financial statements as part of its external financial reporting process. Accordingly, the government has placed reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: This condition was caused by the government's decision that it is more cost effective to have external auditors recommend the necessary adjusting journal entries to its general ledger and prepare the financial statements than to incur the time and expense for the government to perform these tasks internally.

Effect: As a result of this condition, the government lacks internal controls over the recording, processing and summarizing accounting data and preparing financial statements, and instead relied, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The government has evaluated the cost versus benefit of establishing internal controls over the recording, processing and summarizing accounting data and preparing financial statements, and determined that it is in the best interests of the government to rely on its external auditors to recommend the necessary adjustments and preparation of the financial statements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Vassar's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bertch & Co.

Saginaw, Michigan
October 29, 2008



REQUIRED COMMUNICATION TO THE CITY OF VASSAR IN ACCORDANCE WITH PROFESSIONAL STANDARDS

To the City Council
City of Vassar

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Vassar for the year ended June 30, 2008, and have issued our report thereon dated October 29, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 2, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Vassar are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

Disclosures

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, if any.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 29, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Internal Control Matters

In planning and performing our audit of the financial statements of the City of Vassar as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Vassar's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined above.

Deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above, follow:

Recording, Processing and Summarizing Accounting Data

Criteria: All governments are required to have in place internal controls over recording, processing, summarizing accounting data and preparing financial statements. SAS No. 112 requires us to communicate with you about this.

Conditions: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the recording, processing, summarizing accounting data and preparing financial statements as part of its external financial reporting process. Accordingly, the government has placed reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: This condition was caused by the government's decision that it is more cost effective to have external auditors recommend the necessary adjusting journal entries to its general ledger and prepare the financial statements than to incur the time and expense for the government to perform these tasks internally.

Effect: As a result of this condition, the government lacks internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and instead relied, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The government has evaluated the cost versus benefit of establishing internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and determined that it is in the best interests of the government to rely on its external auditors to recommend the necessary adjustments and preparation of the financial statements.

This communication is intended solely for the information and use of management, Council, and others within the Municipality, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants
Saginaw, Michigan

October 29, 2008